

CORRECTED FISCAL NOTE

HB 2623 – SB 2932

March 20, 2006

SUMMARY OF BILL: Makes the retail sale or use of hybrid-electric motor vehicles or alternative fuel motor vehicles taxable at a rate of three and one-half percent (3.5%) provided that such retail sale or use is subject to local option taxes. Adds the language “hybrid-electric or alternative fuel motor vehicles regardless of the number of occupants” to the definition of “high occupancy vehicle”. Defines “hybrid-electric motor vehicle” and “alternative fuel motor vehicle”.

ESTIMATED FISCAL IMPACT:

On February 22, 2006, we issued a fiscal note that indicated a decrease to state revenues exceeding \$2,500,000 and a one-time increase to state expenditures of \$100,000. Based on additional information provided by the Department of Transportation, the estimated fiscal impact of this bill is:

(CORRECTED)

Decrease State Revenues – Exceeds \$2,500,000

Increase State Expenditures - \$100,000 One-Time

Other Fiscal Impact – According to the Department of Transportation, the federal *Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users* (SAFETEA-LU) addresses the use of HOV lanes and allows certain single occupancy hybrid motor vehicles to travel in the HOV lane. *The definition of a hybrid motor vehicle in this bill does not meet the requirements of SAFETEA-LU.* Therefore, this bill would place Tennessee in non-compliance with federal law which would allow the Federal Highway Administration to request repayment of federal funds spent to construct HOV lanes. An amount in excess of \$75.0 million in federal funds has been spent on HOV lanes to date.

Assumptions:

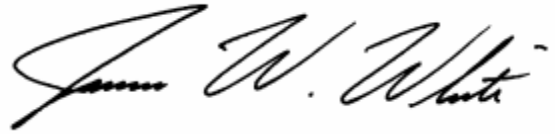
- The state would be in non-compliance with federal law and could be requested to repay approximately \$75.0 million to the Federal Highway Administration.

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- “High occupancy vehicle” means a public transportation vehicle, privately owned bus, motorcycle, hybrid-electric or alternative fuel motor vehicle regardless of the number of occupants, or private passenger motor vehicle (including vans and pick-up trucks) carrying not less than two (2) passengers, or more as determined by the Commissioner of the Department of Transportation (TDOT).
- “Alternative fuel motor vehicle” means a motor vehicle which is either a fuel-flex vehicle in which the engine is designed to run on regular unleaded gasoline and an alcohol fuel or a bi-fuel vehicle which is designed to run with two (2) separate fuel systems, with the capability to switch from one to the other efficiently.
- “Hybrid-electric motor vehicle” means a motor vehicle which combines a gasoline engine with a battery-powered electric motor.
- According to Department of Revenue (DOR) sources, approximately 2,450 hybrid vehicles and 1,000 alternative fuel vehicles will be sold in Tennessee in FY06-07.
- Average price after trade-in is \$20,000.
- Current state sales tax rate is 7%.
- Current single article tax is 2.75% on the amount of the purchase price that is more than \$1,600 but less than \$3,200.
- Tax base is \$69.0 million (3,450 vehicles X \$20,000 price = \$69.0 million).
- The decrease of state revenues resulting from the sales tax reduction is estimated to exceed \$2,415,000 (\$69.0 million X 3.5% reduction = \$2,415,000).
- The amount of revenues that would have been collected with the single article tax is estimated at \$151,800 (3,450 vehicles X \$1,600 X 2.75% = \$151,800).
- The net decrease of state revenues is estimated to exceed \$2.5 million (\$2,415,000 + \$151,800 = \$2,566,800).
- Software modification and form revisions would cause a one-time state expenditure estimated at \$100,000.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" written in a smaller, more compact script than the last name "White".

James W. White, Executive Director

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